

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2004**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
School District of the City of East Lansing  
East Lansing, Michigan

August 17, 2004

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of School District of the City of East Lansing's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District of the City of East Lansing as of June 30, 2004 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2004, on our consideration of School District of the City of East Lansing's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Education  
School District of the City of East Lansing

August 17, 2004

The management's discussion and analysis and budgetary comparison information on pages vi through xvii and page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School District of the City of East Lansing's basic financial statements. The additional information on pages 25 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mamay, Costeniser & Ellis, P.C.*

Certified Public Accountants

# School District of the City of East Lansing

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## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



The School District of the City of East Lansing, a K-12 public school district located in Ingham and Clinton Counties, Michigan is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the School District of the City of East Lansing's management's discussion and analysis of financial performance for the year ended June 30, 2004. Prior year information is provided for comparative analysis.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The government-wide financial statements are new per GASB 34 and provide information about the *governmental activities* of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. These statements provide information about how *governmental funds* were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations by providing information about the District's most significant funds and with all other funds presented in one column as "non-major funds". The fiduciary funds statements present financial information about activities for which the District acts solely as an agent for the benefit of mostly student groups. The required supplemental information provide budget to actual comparisons for the general fund. The remaining statements are provided for additional analysis.

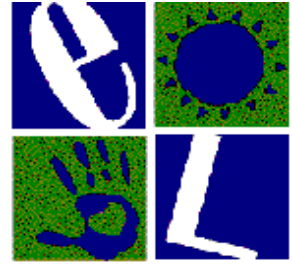
### Government-wide Financial Statements – Reporting the School District as a Whole

In the business arena a commonly asked question is, "is the entity as a whole better or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report financial information about the District as a whole and its activities in a way that helps the reader answer this question. These statements are prepared using the full accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. They report all of the District's assets and liabilities, both short and long-term, and all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets (the difference between assets and liabilities), as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide educational services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

# **School District of the City of East Lansing**

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## **Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004**



The governmental-wide financial statements report the governmental activities of the District, which encompass all of the District's services. Local property taxes, state per pupil foundation allowance, and state and federal grants finance the majority of these activities.

### **Fund Financial Statements – Reporting the School District's Most Significant Funds**

The fund financial statements provide detailed information about the most significant funds of the District - not the District as a whole. Certain funds are required to be established by State law or by bond covenants. Others funds are created in order to help control and manage their activities. The fund level statements of the District use an accounting method called modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. For the most part these fund level statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported.

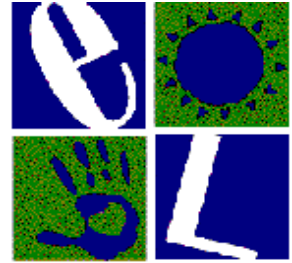
All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows in and out of funds and the balances remaining at year-end that are available for appropriation. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. The information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Differences between governmental activities, as reported in the government-wide statements, and governmental funds, as reported in the fund financial statements, are presented in a reconciliation statement.

### **Fiduciary Statements – Reporting the School District's Trustee Responsibility**

The District is the trustee, or fiduciary for its student activity funds. All of the District's fiduciary activities are aggregated and reported in the Statement of Fiduciary Net Assets. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### The School District as a Whole – Summary of Net Assets

The Statement of Net Assets provides the perspective of the District as a whole. The following schedule summarizes the net assets as of June 30, 2004 and June 30, 2003:

	2004	2003
ASSETS:		
Current assets	\$ 37,071,807	\$ 66,306,531
Capital assets - net	62,937,763	32,809,056
Total assets	<u>\$ 100,009,570</u>	<u>\$ 99,115,587</u>
LIABILITIES:		
Current liabilities	\$ 12,319,901	\$ 14,515,609
Long-term liabilities	89,555,894	91,148,488
Total liabilities	<u>101,875,795</u>	<u>105,664,097</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	(3,494,893)	(7,806,822)
Restricted for capital projects (sinking fund)	2,342,656	2,046,622
Unrestricted	<u>(713,988)</u>	<u>(788,310)</u>
Total net assets (deficit)	<u>(1,866,225)</u>	<u>(6,548,510)</u>
Total liabilities and net assets (deficit)	<u>\$ 100,009,570</u>	<u>\$ 99,115,587</u>

### Analysis of Financial Position

During the fiscal year ended June 30, 2004, the District's net assets (deficit) decreased by \$4,682,285. A few of the more significant factors affecting net assets during the year are discussed below:

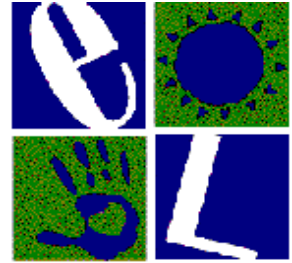
#### 1. Depreciation Expense

As a result of GASB 34, the District is required to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets.



# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



The District records depreciation expense on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, when applicable. For the fiscal year ended June 30, 2004 and June 30, 2003, the following was recorded as depreciation expense:

	2004	2003
Land improvements	\$ 92,863	\$ 61,585
Building and additions	703,997	487,578
Machinery and equipment	254,871	318,023
Transportation and equipment	40,591	52,446
Total	<u>\$ 1,092,322</u>	<u>\$ 919,632</u>

One approach of interpreting depreciation expense is that in order to maintain net assets at a constant level the District would have to capitalize assets equal to the annual depreciation expense. However, when taking into consideration factors such as, inflation and repairs and maintenance, the actual investment in capital outlay would have to exceed the depreciation expense in order to maintain assets at the same level of value and functionality.

### 2. Capital Outlay Acquisition

For the fiscal year ended June 30, 2004, \$31,221,029 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets are depreciated over time as explained above.

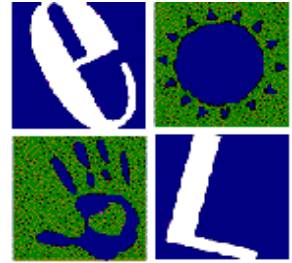
The net effect of capital asset additions, deletions, and the current year's depreciation expense is an increase to capital assets in the amount of \$30,128,707 for the fiscal year ended June 30, 2004. The majority of this increase is due to the on-going 2000 Capital Projects construction.

### Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net assets.

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



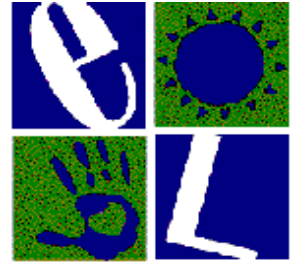
For the fiscal year ended June 30, 2004 and June 30, 2003, the District-wide results of operation were:

	<u>2004</u>	<u>% of total</u>	<u>2003</u>	<u>% of total</u>
General revenues:				
Property taxes, levied for general operations	\$ 7,637,956	17.9	\$ 7,225,775	16.3
Property taxes, levied for debt service	6,139,705	14.4	5,823,976	13.1
Property taxes, levied for sinking fund	1,102,777	2.6	1,049,069	2.4
Investment earnings	2,453,842	5.7	3,704,493	8.4
State sources	20,978,969	49.1	22,148,908	49.9
County special education allocation	2,162,102	5.1	2,041,052	4.6
Other	313,314	0.7	239,024	0.5
Total general revenues	40,788,665	95.5	42,232,297	95.2
Program revenues:				
Charges for services	796,490	1.9	967,148	2.2
Operating grants	1,128,556	2.6	1,158,862	2.6
Total revenues	<u>\$42,713,711</u>	<u>100.0</u>	<u>\$ 44,358,307</u>	<u>100.0</u>
Function/program expenses:				
Instruction	\$ 18,418,808	48.4	\$ 19,006,830	48.2
Support services	11,897,754	31.3	12,523,388	31.8
Community services	25,139	0.1	36,161	0.1
Food services	841,912	2.2	860,504	2.2
Athletics	674,698	1.8	743,580	1.9
Interest on long-term debt	5,080,793	13.4	5,306,820	13.5
Unallocated depreciation	1,092,322	2.8	919,632	2.3
Total expenses	<u>\$38,031,426</u>	<u>100.0</u>	<u>\$ 39,396,915</u>	<u>100.0</u>

Significant revenues and expenditures are discussed in the segments below:

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### 1. Property Taxes

The District levies various millages on property taxes for general operations, debt service, and building and site repairs. Each millage, except those for debt service, is subject to mandatory reductions as required by the Headlee Amendment. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property's market value.

The District receives settlements from Ingham and Clinton counties on all outstanding *real* property taxes at the end of each fiscal year. The amount of unpaid *personal* property taxes at June 30, 2004 was approximately \$117,000, or .79% of the total levy.

The following schedule summarizes the millages levied for the past five years:

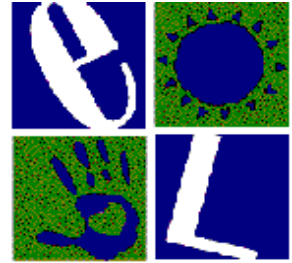
Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2003 - 2004	0.9609	17.0391	7.0000	1.2676
2002 - 2003	1.0775	16.9225	7.0000	1.2716
2001 - 2002	1.1417	16.8583	7.0000	1.2788
2000 - 2001	1.1440	16.8560	7.0000	1.2909
1999 - 2000	1.3150	16.6785	3.8900	1.2965

The following schedule summarizes the property taxes generated for the past five years (these amount have been calculated using the latest taxable values known for each fiscal year and are subject to change each September when revised valuations are determined):

Fiscal year	All property supplemental operating mills levied	Non-homestead operating mills levied	All property debt service mills levied	All property building & site mills levied
2003 - 2004	\$ 839,443	\$ 6,862,112	\$ 6,115,202	\$ 1,107,376
2002 - 2003	893,553	6,389,285	5,804,985	1,054,517
2001 - 2002	896,338	6,013,885	5,495,636	1,003,974
2000 - 2001	846,072	5,532,722	5,177,014	954,715
1999 - 2000	928,542	5,290,851	2,746,790	915,479

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### 2. State Sources

Per the State School Aid Act the State of Michigan funds school districts on a per pupil allowance based on a blended student enrollment. The blended enrollment consists of 80% of the current year's fall count (the fourth Wednesday of September) and 20% of the prior year's supplemental count (the second Wednesday of February). The District's per pupil allowance for fiscal year 2004 was \$8,132.

The following schedule summarizes the District's per pupil allowance over the past five years:

<u>Fiscal year</u>	<u>Per pupil allowance</u>	<u>\$ increase from prior year</u>
2003 - 2004	\$ 8,132	\$
2002 - 2003	8,132	200
2001 - 2002	7,932	300
2000 - 2001	7,632	300
1999 - 2000	7,332	238

Non-resident pupil that attend the District via School of Choice (SOC) program are funded at the per pupil allowance of their resident district. The majority of the District's SOC pupils are funded at a lower per pupil amount than the \$8,132 the District receives for its resident pupils.

For the second consecutive year the State of Michigan enacted a pro-ration to the State School Aid in order to balance the State's budget. This pro-ration of the per pupil allowance resulted in approximately \$264,000 and \$156,000 of loss revenue to the District for fiscal year ended 2004 and 2003 respectively. Thus, as indicated above, the flat increase in the per pupil allowance for fiscal year ended 2004 was actually a decrease in funding and the \$200 per pupil increase for fiscal year ended 2003 was not entirely realized.

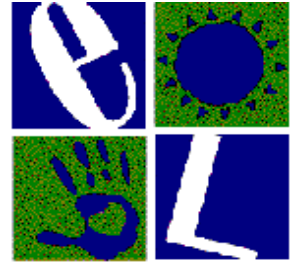
### 3. Student Enrollment

The District's enrollment figures have gradually declined over the past several years. The following schedule summarizes the blended enrollment for each of the past five fiscal years:

<u>Fiscal year</u>	<u>Actual blended student FTE</u>	<u>FTE change from prior year</u>
2003 - 2004	3,560	(67)
2002 - 2003	3,627	(66)
2001 - 2002	3,693	96
2000 - 2001	3,597	(16)
1999 - 2000	3,613	(65)

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### 4. County Special Education Allocation

The District receives an allocation, based on a complex funding system, from Ingham Intermediate School District to assist with the education of students with special needs. For the fiscal year ended June 30, 2004, the District received \$2,162,102. This amount represents an increase of \$121,050 over the prior fiscal year. An increase in the number of special programs pupils for the three funding categories (A, B and C) contributed to the majority of this increase.

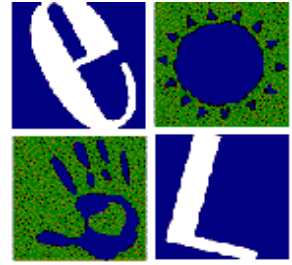
### 5. Expenditure Comparison By Function

The following schedule provides a comparison of fund expenditures for fiscal years 2003-2004 and 2002-2003:

Function	2003 - 2004 fiscal year	%	2002 - 2003 fiscal year	%
Basic programs	\$ 14,462,547	47.7	\$ 15,436,268	48.4
Special education	2,976,170	9.8	2,715,453	8.5
Compensatory education	854,020	2.8	858,116	2.7
Total instruction	\$ 18,292,737	60.3	\$ 19,009,837	59.6
Pupil support services	1,932,300	6.4	2,066,133	6.5
Instructional staff support services	1,138,686	3.8	1,150,819	3.6
School administration	2,141,473	7.1	2,401,635	7.5
Total instructional support	5,212,459	17.3	5,618,587	17.6
General administration	527,607	1.7	456,595	1.4
Business office	656,727	2.2	619,671	1.9
Operations and maintenance	3,549,735	11.7	3,892,257	12.2
Pupil transportation	602,250	2.0	528,882	1.7
Central	1,121,385	3.7	1,218,971	3.8
Community services	25,139	0.1	36,161	0.1
Outgoing transfers and loan payments	357,911	1.0	533,139	1.7
Total general fund	\$ 30,345,950	100.0	\$ 31,914,100	100.0
Food service fund	\$ 841,912		\$ 860,504	
Athletic fund	674,698		743,580	
Debt service fund	7,671,492		7,676,430	
Sinking fund	839,031		1,658,554	
2000 capital projects fund	30,609,589		18,449,534	
Total	\$ 70,982,672		\$ 61,302,702	

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt the original budget for the upcoming fiscal year prior to the start of the fiscal year on July 1. Amendments made to the original budgets must be adopted by the Board of Education prior to the close of the fiscal year on June 30.

The District budgets according to the Michigan School Accounting Manual bulletin 1022. It is standard practice to amend its budget semi-annually, usually December and June.

The following schedule shows a five-year comparison of the general fund revenue and other financing sources final budget versus actual results:

<u>Fiscal year</u>	<u>Revenue and OFS budget</u>	<u>Revenue and OFS actual</u>	<u>Variance actual vs. final budget</u>
2003 - 2004	\$ 31,951,097	\$ 32,023,780	0.23%
2002 - 2003	32,971,385	32,897,357	-0.22%
2001 - 2002	32,859,225	32,851,721	-0.02%
2000 - 2001	31,515,009	31,297,126	-0.69%
1999 - 2000	29,898,011	30,471,396	1.92%

Five year average over (under) budget 0.24%

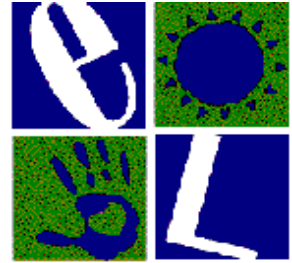
The following schedule shows a five-year comparison of the general fund expenditures and other financing uses final budget versus actual results:

<u>Fiscal year</u>	<u>Expenditure and OFU budget</u>	<u>Expenditure and OFU actual</u>	<u>Variance actual vs. final budget</u>
2003 - 2004	\$ 31,209,712	\$ 30,891,542	-1.02%
2002 - 2003	33,410,826	32,578,547	-2.49%
2001 - 2002	34,173,935	33,788,558	-1.13%
2000 - 2001	34,020,410	33,537,841	-1.42%
1999 - 2000	32,022,307	31,747,831	-0.86%

Five year average over (under) budget -1.18%

# School District of the City of East Lansing

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### Capital Asset and Debt Administration

#### 1. Capital Assets

At June 30, 2004, the District had \$62,937,763 invested in a broad range of capital assets, including land, construction in progress, land improvements, buildings, various furniture and equipment, and school buses and other vehicles. This amount represents a net increase of \$30,128,707 due in large part to the 2000 Capital Projects construction and remodeling.

The following schedule shows the net book value of the District's capital assets by class type:

	Cost	Accumulated depreciation	Net book value
Land	\$ 875,544	\$ -	\$ 875,544
Construction in progress	33,286,293	-	33,286,293
Land improvements	2,779,328	(1,292,269)	1,487,059
Building and additions	37,553,442	(12,538,369)	25,015,073
Machinery and equipment	3,497,444	(1,352,186)	2,145,258
Transportation equipment	767,900	(639,364)	128,536
Total	<u>\$ 78,759,951</u>	<u>\$ (15,822,188)</u>	<u>\$ 62,937,763</u>

#### 2. Long-term Debt

At June 30, 2004, the District had \$84,890,085 in general obligation bonded debt outstanding versus \$87,699,686 at June 30, 2003.

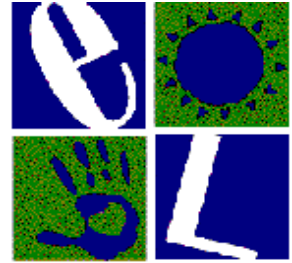
The District continues to participate in the School Bond Loan Fund (SBLF) program, borrowing for debt service repayment while maintaining the debt service millage at 7.0000 mills. During the fiscal year the District issued \$1,325,279 in new borrowings under SBLF.

The District's general obligation bond rating continues to be Baa. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily imposed limit.

# School District of the City of East Lansing

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## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004



### Factors Bearing on the District's Future

Our elected officials and administration consider many factors when developing the District's fiscal year budget. The following items could significantly impact the District's financial health in the future:

- Perhaps the single most important factor affecting the District's budget is student enrollment. The State Aid Foundation revenue is driven by the blended student enrollment. The District is anticipating a continued decline in enrollment for the upcoming fiscal year. In addition, the per pupil foundation allowance the District receives from the State was not increased for fiscal year 2005. If the economy fails to improve and State revenues fall short of projections, Districts across the state may face a pro-ration of their foundation allowances once again.
- The District continues to incur rapid increases in the premiums it pays for employee benefits, in particular health insurance. Health insurance rates increased 13.72% for the upcoming 2005 fiscal year. This is on top of the 7.1% increase for fiscal year 2004. In addition, the State increased the retirement rate to 14.87%, effective October 1, 2004, that is charged to districts to fund the retirement system. The new rate represents a 14.47% increase over the prior year's rate. It is anticipated that higher rates are on the horizon as the number of retirees increase.
- The District's general operating, supplemental, and sinking fund property tax millages were renewed at the end of fiscal year 2004. Each of these millages provides valuable revenue that finance the District's educational programs as well as repair of school buildings and sites.
- The East Lansing Board of Education has hired a new Superintendent.
- The contract with East Lansing Education Association, the union that represents the teaching staff, has been tentatively agreed upon by the negotiators. The contract with Teamsters Local Union 580, the union that represents the bus driver staff, expired on June 30, 2002. The contract with the International Union of Operating Engineers, the union that represents the secretaries, expired on June 30, 2004. The contract with the East Lansing Educational Support Personnel Association, the union that represents the paraprofessionals, expired on June 30, 2004. As of the time these financial statements were prepared no contract had been agreed upon for any of these unions. Contract negotiations are on going.
- Major capital projects are planned for the upcoming fiscal year, in particular High School construction. As part of the 2000 Capital Projects approved by votes in September 2000, major remodeling continues at East Lansing High School.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances. If you have questions about this report, or need additional financial information, please contact the Business Office, School District of the City of East Lansing, 841 Timberlane Street, Suite A, East Lansing, MI 48823.



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash	\$ 2,000
Investments	32,324,916
Receivables:	
Accounts receivable	54,252
Accrued interest	272,307
Other governmental units including property taxes	4,355,924
Inventories	48,531
Prepaid expenditures	<u>13,877</u>
<b>TOTAL CURRENT ASSETS</b>	<u>37,071,807</u>
<b>NONCURRENT ASSETS:</b>	
Capital assets	78,759,951
Less accumulated depreciation	<u>(15,822,188)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>62,937,763</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 100,009,570</u></u>

See notes to financial statements.

## LIABILITIES AND NET ASSETS (DEFICIT)

	<u>Governmental activities</u>
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 4,363,880
Accrued interest	926,056
Accrued salaries and related items	2,794,739
Deferred revenue	82,548
Due to other governmental units	121,171
Current portion of long-term obligations	3,582,979
Current portion of employee compensated absences and severance benefits	<u>448,528</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>12,319,901</u>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	84,712,027
Noncurrent portion of compensated absences and severance benefits	3,950,635
Arbitrage	<u>893,232</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>89,555,894</u>
<b>TOTAL LIABILITIES</b>	<u>101,875,795</u>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(3,494,893)
Restricted for capital projects (sinking fund)	2,342,656
Unrestricted	<u>(713,988)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>(1,866,225)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u><u>\$ 100,009,570</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2004**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 18,418,808	\$	\$ 626,774	\$ (17,792,034)
Support services	11,897,754	105,448	187,119	(11,605,187)
Community services	25,139	32,137	702	7,700
Food services	841,912	540,299	313,961	12,348
Athletics	674,698	118,606		(556,092)
Interest on long-term debt	5,080,793			(5,080,793)
Unallocated depreciation	1,092,322			(1,092,322)
Total governmental activities	<u>\$ 38,031,426</u>	<u>\$ 796,490</u>	<u>\$ 1,128,556</u>	<u>(36,106,380)</u>
General revenues:				
Property taxes, levied for general purposes				7,637,956
Property taxes, levied for debt service				6,139,705
Property taxes, levied for sinking fund				1,102,777
Investment earnings				2,453,842
State sources				20,978,969
Ingham ISD allocation				2,162,102
Other				313,314
Total general revenues				<u>40,788,665</u>
<b>CHANGE IN NET ASSETS</b>				4,682,285
<b>NET ASSETS (DEFICIT), beginning of year</b>				<u>(6,548,510)</u>
<b>NET ASSETS (DEFICIT), end of year</b>				<u>\$ (1,866,225)</u>

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

ASSETS													
<b>ASSETS:</b>													
Cash	\$	2,000	\$	\$	\$	2,000							
Investments		2,902,608		109,083		26,425,295		2,887,930		32,324,916			
Receivables:													
Accounts receivable		53,509						743		54,252			
Accrued interest						269,674		2,633		272,307			
Other governmental units including property taxes		4,343,749		3,288				8,887		4,355,924			
Inventories		34,912						13,619		48,531			
Prepaid expenditures		12,717		138				1,022		13,877			
<b>TOTAL ASSETS</b>		<b>\$</b>	<b>7,349,495</b>	<b>\$</b>	<b>112,509</b>	<b>\$</b>	<b>26,694,969</b>	<b>\$</b>	<b>2,914,834</b>	<b>\$</b>	<b>37,071,807</b>		
<b>LIABILITIES AND FUND BALANCES</b>													
<b>LIABILITIES:</b>													
Accounts payable	\$	136,567	\$		\$	3,939,387	\$	287,926	\$	4,363,880			
Accrued salaries and related items		2,785,903						8,836		2,794,739			
Deferred revenue		249,981						15,828		265,809			
Due to other governmental units		105,925		7,429				7,817		121,171			
<b>TOTAL LIABILITES</b>			<b>3,278,376</b>		<b>7,429</b>		<b>3,939,387</b>		<b>320,407</b>		<b>7,545,599</b>		
<b>FUND BALANCES:</b>													
Reserved for:													
Debt service				105,080				74,424		179,504			
Inventories		34,912						13,619		48,531			
Prepaid expenditures		12,717						347		13,064			
2000 capital projects fund						22,755,582				22,755,582			
Sinking fund								2,342,656		2,342,656			
Deferred retirement incentives		259,040								259,040			
Non-current portion of receivables		110,882								110,882			
<b>FUND BALANCES (Concluded):</b>													
Designated	\$	139,844	\$		\$		\$		\$	139,844			
Designated for subsequent year expenditures		203,519								203,519			
Total reserved or designated			760,914		105,080		22,755,582		2,431,046		26,052,622		
Unreserved and undesignated			3,310,205						163,381		3,473,586		
<b>TOTAL FUND BALANCES</b>			<b>4,071,119</b>		<b>105,080</b>		<b>22,755,582</b>		<b>2,594,427</b>		<b>29,526,208</b>		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<b>\$</b>	<b>7,349,495</b>	<b>\$</b>	<b>112,509</b>	<b>\$</b>	<b>26,694,969</b>	<b>\$</b>	<b>2,914,834</b>	<b>\$</b>	<b>37,071,807</b>		
<b>Total Governmental Fund Balances</b>											<b>\$ 29,526,208</b>		
Amounts reported for governmental activities in the statement of net assets are different because:													
Capital assets used in governmental activities are not financial resources and are not reported in the funds:													
The cost of the capital assets is								\$	78,759,951				
Accumulated depreciation is									(15,822,188)				
										62,937,763			
Revenue not recorded in the funds due to not being collected after September 1, 2004:													
Special Education payment due from IISD										91,465			
Asbestos settlement receivable										32,294			
Long-term liabilities are not due and payable in the current period and are not reported in the funds:													
Bonds payable										(85,029,928)			
School bond loan payable										(3,265,078)			
Arbitrage payable										(893,232)			
Compensated absences										(4,399,163)			
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid												(926,056)	
Balance of taxes receivable at 6/30/04 less allowance for doubtful accounts expected to be collected after September 1, 2004										59,502			
<b>Net assets (deficit) of governmental activities</b>											<b>\$ (1,866,225)</b>		

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

	<b>General fund</b>	<b>2000 Debt service fund</b>	<b>2000 Capital projects fund</b>	<b>Other nonmajor governmental funds</b>	<b>Total governmental funds</b>
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ 7,647,870	\$ 3,629,875	\$	\$ 3,612,607	\$ 14,890,352
Payment in lieu of taxes		15,242		15,211	30,453
Penalties and interest on delinquent taxes	1,994	1,093		886	3,973
M.S.U. reimbursement				105,448	105,448
Investment income	42,960	14,560	2,349,463	42,886	2,449,869
Food sales and athletic admissions				606,553	606,553
Other	310,984			62,852	373,836
Total local revenues	8,003,808	3,660,770	2,349,463	4,446,443	18,460,484
State sources	20,964,599			45,764	21,010,363
Federal sources	814,066			283,096	1,097,162
Incoming transfers and other transactions	2,159,258				2,159,258
Total revenues	31,941,731	3,660,770	2,349,463	4,775,303	42,727,267
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Basic programs	14,462,547				14,462,547
Added needs	3,830,190				3,830,190
Total instruction	18,292,737				18,292,737
Support services:					
Pupil	1,932,300				1,932,300
Instructional staff	1,138,686				1,138,686
School administration	2,141,473				2,141,473
General administration	527,607				527,607
Business	656,727				656,727

	General fund	2000 Debt service fund	2000 Capital projects fund	Other nonmajor governmental funds	Total governmental funds
<b>EXPENDITURES (Concluded):</b>					
Support services (Concluded):					
Operation and maintenance	\$ 3,549,735	\$	\$	\$	\$ 3,549,735
Pupil transportation	602,250				602,250
Central	1,121,385				1,121,385
Total support services	11,670,163				11,670,163
Athletics				674,698	674,698
Community services	25,139				25,139
Food service				841,912	841,912
Capital outlay			30,609,589	839,031	31,448,620
Outgoing transfers and other transactions	299,270				299,270
Debt service:					
Principal retirement	56,349	1,075,000		1,035,072	2,166,421
Interest and fiscal charges	2,292	3,425,431		2,134,363	5,562,086
Professional fees		275		1,351	1,626
Total expenditures	30,345,950	4,500,706	30,609,589	5,526,427	70,982,672
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,595,781</u>	<u>(839,936)</u>	<u>(28,260,126)</u>	<u>(751,124)</u>	<u>(28,255,405)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from school bond loan fund		847,282		477,997	1,325,279
Proceeds from sale of school property	4,279				4,279
Operating transfers in	77,770			545,592	623,362
Operating transfers out	(545,592)			(77,770)	(623,362)
Total other financing sources (uses)	(463,543)	847,282		945,819	1,329,558
<b>NET CHANGE IN FUND BALANCES</b>	1,132,238	7,346	(28,260,126)	194,695	(26,925,847)
<b>FUND BALANCES:</b>					
Beginning of year	2,938,881	97,734	51,015,708	2,399,732	56,452,055
	<u>\$ 4,071,119</u>	<u>\$ 105,080</u>	<u>\$ 22,755,582</u>	<u>\$ 2,594,427</u>	<u>\$ 29,526,208</u>

See notes to financial statements.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

<b>Net change in fund balances total governmental funds</b>	\$ (26,925,847)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(1,092,322)
Capital outlay	31,221,029

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	950,711
Accrued interest payable end of the year	(926,056)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities):

Proceeds of school bond loan fund	(1,325,279)
Payments on debt	2,166,421
Long-term interest on school bond loan fund	(83,984)
Long-term accretion on capital appreciation bond	(645,399)
Payment of interest on capital appreciation bond	1,344,928
Arbitrage	(157,281)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue beginning of the year	(201,096)
Accrued revenue end of the year	183,261

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and accumulated severance benefit beginning of the year	4,572,362
Accrued compensated absences and accumulated severance benefit end of the year	(4,399,163)

<b>Change in net assets of governmental activities</b>	<b><u>\$ 4,682,285</u></b>
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**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2004**

	<u>Agency funds</u>
<b>ASSETS</b>	
Investments	<u>\$ 379,201</u>
<b>LIABILITIES</b>	
Due to student, school, and other groups	<u>\$ 379,201</u>



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the School District of the City of East Lansing have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

The School District of the City of East Lansing (the "District") is governed by the School District of the City of East Lansing Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 2000 *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The 2000 *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The 1991 and 1996 *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects sinking fund* records capital project activities funded with sinking fund millage and other sources. For the sinking fund, the District has complied with the applicable provision of §1212(1) of the Revised School code and the State of Michigan Department of Treasury Letter No. 01-95.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2000 School Bonds activity:

Revenue and transfer in of \$500,000	<u><u>\$ 12,400,396</u></u>
Expenditures and transfers	<u><u>\$ 55,714,279</u></u>

The above revenue figure does not include original 2000 School Bond proceeds of \$ 66,069,465.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund:	
Operating - Non-homestead	17.0391
Supplemental - Homestead and non-homestead	0.9609
Debt service fund - Homestead and non-homestead	7.0000
Sinking fund - Homestead and non-homestead	1.2676

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when received. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2004. The District does not consider these amendments to be significant.

The District utilizes pooled cash accounts for some of its funds.

Deposits

At year-end, the carrying amount of the District's deposits were \$6,250,625 including \$1,755,000 of certificates of deposit. The bank balance was \$7,073,475 of which \$200,000 was covered by federal depository insurance and \$6,873,475 was uninsured and uncollateralized. The District had \$2,000 of petty cash on hand. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

The carrying amount of fiduciary funds deposits were \$379,201 and the bank balance was \$395,666 of which \$172,695 was covered by federal depository insurance and \$222,971 was uninsured and uncollateralized.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

At year end, the fair value of the District's investment balance were as follows:

	Category			Carrying amount
	1	2	3	
US Treasury Bonds	\$	\$	\$26,251,231	\$ 26,251,231
Investments not subject to categorization:				
Investments in pooled investment funds				202,261
				<u>\$ 26,453,492</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)**

The District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the District is the Michigan Class Investment (MCIF). MCIF is an external pooled investment fund of “qualified” investments for Michigan school districts. MCIF is not regulated nor is it registered with the SEC. MCIF reports as of June 30, 2004, the fair value of the District’s investments is the same as the value of the pool shares.

A reconciliation of cash and investments is shown as follows:

Cash on hand	\$ 2,000
Carrying amount of deposits	6,250,625
Carrying amount of investments	<u>26,453,492</u>
Total	<u><u>\$ 32,706,117</u></u>

A reconciliation of cash and investments as shown on statement of net assets follows:

Cash	\$ 2,000
Investments - including agency funds of \$379,201	<u>32,704,117</u>
Total	<u><u>\$ 32,706,117</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2003	Additions	Reclassifications/ Deletions	Balance June 30, 2004
Assets not being depreciated:				
Land	\$ 875,544	\$	\$	\$ 875,544
Construction in progress	21,423,373	24,139,553	(12,276,633)	33,286,293
	<u>22,298,917</u>	<u>24,139,553</u>	<u>(12,276,633)</u>	<u>34,161,837</u>
Other capital assets:				
Land improvements	2,125,531	653,797	-	2,779,328
Buildings and additions	20,311,767	17,241,675	-	37,553,442
Machinery and equipment	2,056,527	1,462,637	(21,720)	3,497,444
Transportation equipment	767,900		-	767,900
Total other capital assets	<u>25,261,725</u>	<u>19,358,109</u>	<u>(21,720)</u>	<u>44,598,114</u>
Accumulated depreciation:				
Land improvements	1,199,406	92,863		1,292,269
Building and improvements	11,834,372	703,997		12,538,369
Machinery and equipment	1,119,035	254,871	(21,720)	1,352,186
Vehicles	598,773	40,591		639,364
Total accumulated depreciation	<u>14,751,586</u>	<u>1,092,322</u>	<u>(21,720)</u>	<u>15,822,188</u>
Net other capital assets	<u>10,510,139</u>	<u>18,265,787</u>	<u>-</u>	<u>28,775,926</u>
Net capital assets	<u>\$ 32,809,056</u>	<u>\$ 42,405,340</u>	<u>\$ (12,276,633)</u>	<u>\$ 62,937,763</u>

Amounts included in capital assets include only items greater than \$5,000.

Depreciation for the fiscal year ended June 30, 2004 amounted to \$1,092,322. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2004 consist of the following:

	<u>Total</u>
Other governmental units:	
State Aid	\$ 3,786,128
Federal revenue	223,476
Ingham Intermediate School District	91,465
Property taxes	<u>254,855</u>
	<u><u>\$ 4,355,924</u></u>

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation debts currently outstanding are as follows:

1991 capital appreciation (serial) bonds due in annual installments of \$2,095,000 to \$2,315,000 through May 1, 2008, with interest at 6.75% to 7.00%.	\$ 7,500,085
1996 refunding bonds due in annual installments of \$40,000 to \$2,895,000 through May 1, 2014, with interest at 4.60% to 5.35%.	15,115,000
2000 general obligation bonds due in annual installments of \$1,150,000 to \$3,100,000 through May 1, 2030, with interest at 4.55% to 5.75%.	<u>62,275,000</u>
Total general obligation bonded debt	84,890,085
Rebatable arbitrage due to the Internal Revenue Service by November 30, 2005 with respect to the \$66,080,000 2000 School Building and Site Bonds.	893,232
Borrowing from the State of Michigan School Bond Loan Fund including interest due at the times determined by the State Treasurer in accordance with Const. 1963, Art. 9, Sect. 16 and Act 108, with varying interest at the average rate paid by the State on obligations issued pursuant to section 16 of Article IX of the State Const. of 1963.	3,265,078
Promissory note with Fifth Third Bank in monthly installments of \$1,924 commencing on June 1, 2001 and continuing until May 1, 2006, with annual interest rate at 4.19%. Secured by equipment.	42,423

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Agency payable in semi-annual installments of \$4,940, commencing on June 30, 1988 and continuing until December 30, 2005. The promissory note is provided under a federal program and is interest free. \$ 14,820

Agency payable in semi-annual installments of \$5,883, commencing June 30, 1989 and continuing until December 30, 2005. The promissory note is provided under a federal program and is interest free. 13,054

Promissory note with the United States Environmental Protection Agency payable in semi-annual installments of \$6,954, commencing May 30, 1991 and continuing until May 30, 2009. The promissory note is provided under a federal program and is interest free. 69,546

Employee compensated absences 4,399,163

Total general long-term debt \$ 93,587,401

The annual requirements to amortize the long-term obligations as of June 30, 2004, including interest of \$59,517,825 are as follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 3,582,979	\$ 4,166,222	\$ 7,749,201
2006	4,498,368	4,111,877	8,610,245
2007	3,658,909	4,050,542	7,709,451
2008	3,748,909	3,982,717	7,731,626
2009	3,818,910	3,905,577	7,724,487
2010-2014	21,285,000	16,445,502	37,730,502
2015-2019	13,500,000	11,521,982	25,021,982
2020-2024	14,725,000	7,688,404	22,413,404
2025-2029	15,350,000	3,470,626	18,820,626
2030	3,100,000	174,376	3,274,376
	87,268,075	59,517,825	146,785,900
Unrealized appreciation	(1,344,915)		(1,344,915)
Accumulated compensated absences	4,399,163		4,399,163
Due to school bond loan fund	3,265,078		3,265,078
	<u>\$ 93,587,401</u>	<u>\$ 59,517,825</u>	<u>\$ 153,105,226</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

An amount of \$179,504 is available in the debt service funds to service the general obligation debt.

The following is a summary of long-term obligations for the District for the year ended June 30, 2004:

	Compensated Absences	Arbitrage	School Bond Loan Fund	Bonds and Other Debt	Total
Balance July 1, 2003	\$ 4,572,362	\$ 735,951	\$ 1,855,815	\$ 87,895,878	\$ 95,060,006
Additions	-	157,281	1,409,263	645,399	2,211,943
Deletions	(173,199)			(3,511,349)	(3,684,548)
Balance June 30, 2004	4,399,163	893,232	3,265,078	85,029,928	93,587,401
Less current portion	(448,528)			(3,582,979)	(4,031,507)
Total due after one year	<u>\$ 3,950,635</u>	<u>\$ 893,232</u>	<u>\$ 3,265,078</u>	<u>\$ 81,446,949</u>	<u>\$ 89,555,894</u>

**NOTE 7 – OPERATING LEASE**

The District leases copy machines under an operating lease agreement with the lease starting August 18, 2003 and ending August 18, 2008, with monthly payments of \$14,485 a month. Expense for copy lease and maintenance agreement for the year ended June 30, 2004 was \$149,348. Future operating lease commitments are as follows:

Year ending June 30,	Copier Lease
2005	\$ 173,826
2006	173,826
2007	173,826
2008	173,826
2009	22,859
Total	<u>\$ 718,163</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2004, were 12.99% of payroll through September 30, 2003, and 12.99% effective October 1, 2003. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2004, 2003 and 2002 were \$2,384,691, \$2,606,501, and \$2,696,252, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2004 or any of the prior three years.

**NOTE 10 – TRANSFERS**

The general fund transferred \$545,592 to the athletic fund. The school lunch fund transferred \$77,770 to the general fund. The transfer from the school lunch fund to the general fund was made to cover indirect cost paid for by the general fund that relate to school lunch activities. These activities include utilities, phone, sewage, custodial, lunch room monitors, building repairs and maintenance of the food service area.

## **REQUIRED SUPPLEMENTARY INFORMATION**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 7,900,139	\$ 7,933,231	\$ 8,003,808	\$ 70,577
State sources	19,929,223	20,964,859	20,964,599	(260)
Federal sources	797,355	808,132	814,066	5,934
Incoming transfers and other transactions	1,800,000	2,165,275	2,159,258	(6,017)
Total revenues	30,426,717	31,871,497	31,941,731	70,234
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	14,253,993	14,556,096	14,462,547	93,549
Added needs	3,488,685	3,869,191	3,830,190	39,001
Total instruction	17,742,678	18,425,287	18,292,737	132,550
Support services:				
Pupil	2,067,966	1,941,433	1,932,300	9,133
Instructional staff	1,195,419	1,178,740	1,138,686	40,054
General administration	454,364	531,436	527,607	3,829
School administration	2,199,736	2,133,769	2,141,473	(7,704)
	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
EXPENDITURES (Concluded):				
Support services (Concluded):				
Business	\$ 567,673	\$ 655,453	\$ 656,727	\$ (1,274)
Operation and maintenance	3,342,278	3,581,620	3,549,735	31,885
Pupil transportation	610,349	615,931	602,250	13,681
Central	1,369,337	1,191,460	1,121,385	70,075
Total support services	11,807,122	11,829,842	11,670,163	159,679
Community services	48,000	25,339	25,139	200
Outgoing transfers and other transactions	341,500	321,565	299,270	22,295
Payment on loans	71,694	58,640	58,641	(1)
Total expenditures	30,010,994	30,660,673	30,345,950	314,723
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	415,723	1,210,824	1,595,781	384,957
OTHER FINANCING SOURCES (USES):				
Sale of school property	1,000	4,600	4,279	(321)
Operating transfer from other funds	75,000	75,000	77,770	2,770
Operating transfers to other funds	(552,937)	(549,039)	(545,592)	3,447
Total other financing sources (uses)	(476,937)	(469,439)	(463,543)	5,896
NET CHANGE IN FUND BALANCE	\$ (61,214)	\$ 741,385	1,132,238	\$ 390,853
FUND BALANCES:				
Beginning of year			2,938,881	
End of year			\$ 4,071,119	

## **ADDITIONAL INFORMATION**

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2004**

	<u>Special revenue funds</u>	<u>Debt service - 1991 and 1996 debt funds</u>	<u>Capital projects - sinking fund</u>	<u>Total nonmajor governmental funds</u>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Investments	\$ 181,814	\$ 76,894	\$ 2,629,222	\$ 2,887,930
Accounts receivable	743			743
Accrued interest			2,633	2,633
Due from other governmental units	5,613	2,268	1,006	8,887
Inventories	13,619			13,619
Prepaid expenditures	347	675		1,022
<b>TOTAL ASSETS</b>	<u><u>\$ 202,136</u></u>	<u><u>\$ 79,837</u></u>	<u><u>\$ 2,632,861</u></u>	<u><u>\$ 2,914,834</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 125	\$	\$ 287,801	\$ 287,926
Due to other governmental units		5,413	2,404	7,817
Accrued salaries and related items	8,836			8,836
Deferred cafeteria revenue	15,828			15,828
<b>TOTAL LIABILITIES</b>	<u>24,789</u>	<u>5,413</u>	<u>290,205</u>	<u>320,407</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Debt service		74,424		74,424
Inventories	13,619			13,619
Prepaid expenditures	347			347
Sinking fund			2,342,656	2,342,656
Unreserved and undesignated	163,381			163,381
<b>TOTAL FUND BALANCES</b>	<u>177,347</u>	<u>74,424</u>	<u>2,342,656</u>	<u>2,594,427</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 202,136</u></u>	<u><u>\$ 79,837</u></u>	<u><u>\$ 2,632,861</u></u>	<u><u>\$ 2,914,834</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2004**

	Special revenue funds	Debt service - 1991 and 1996 debt funds	Capital projects - sinking fund	Total nonmajor governmental funds
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$	\$ 2,509,830	\$ 1,102,777	\$ 3,612,607
Payment in lieu of taxes		10,542	4,669	15,211
Penalties and interest on delinquent taxes		603	283	886
M.S.U. reimbursement		105,448		105,448
Investment earnings		15,550	27,336	42,886
Food sales and athletic admissions	606,553			606,553
Other	62,852			62,852
Total local sources	669,405	2,641,973	1,135,065	4,446,443
State sources	45,764			45,764
Federal sources	283,096			283,096
Total revenues	998,265	2,641,973	1,135,065	4,775,303
<b>EXPENDITURES:</b>				
Athletics activities	674,698			674,698
Food service activities	841,912			841,912
Capital outlay			839,031	839,031
<b>EXPENDITURES (Concluded):</b>				
Debt service:				
Principal repayment	\$	\$ 1,035,072	\$	\$ 1,035,072
Interest expense		2,134,363		2,134,363
Professional fees		1,351		1,351
Total expenditures	1,516,610	3,170,786	839,031	5,526,427
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	(518,345)	(528,813)	296,034	(751,124)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from other funds	545,592			545,592
Transfer to other funds	(77,770)			(77,770)
Proceeds from school bond loan fund		477,997		477,997
Total other financing sources	467,822	477,997		945,819
<b>NET CHANGE IN FUND BALANCES</b>				
	(50,523)	(50,816)	296,034	194,695
<b>FUND BALANCES:</b>				
Beginning of year	227,870	125,240	2,046,622	2,399,732
End of year	\$ 177,347	\$ 74,424	\$ 2,342,656	\$ 2,594,427

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF REVENUE  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>REVENUE:</b>		
Local sources		
Property taxes	\$ 7,657,922	\$ 7,269,436
Less: property valuation adjustments	<u>(10,052)</u>	<u>(50,908)</u>
Total property taxes	7,647,870	7,218,528
Penalties and interest on delinquent personal property taxes	1,994	7,440
M.S.U. reimbursement		236,000
Interest on investments	42,960	89,085
Other community programs	32,137	35,367
Building rent	133,452	68,517
Local grants	49,742	52,701
Asbestos	10,765	43,060
Miscellaneous	<u>84,888</u>	<u>58,489</u>
Total local sources	<u>8,003,808</u>	<u>7,809,187</u>
State sources:		
Foundation allowance/Proposal A and discretionary	19,510,760	20,678,203
Prior year unrestricted adjustments	135,573	(59,879)
Special education Headlee	1,330,700	1,389,184
Prior year restricted adjustments	(58,484)	45,488
Durant II	33,401	33,401
Career preparation		23,424
Golden apple		9,821
Drivers education	10,546	13,283
Gifted and talented	529	8,570
Other	<u>1,574</u>	<u>10,169</u>
Total state sources	<u>20,964,599</u>	<u>22,151,664</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF REVENUE  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>REVENUE (Concluded):</b>		
Federal sources:		
Title I - Improving Basic Programs	\$ 541,546	\$ 571,433
Individuals with Disabilities Education Act - PPI	27,388	23,399
Transition Services		1,490
Title II Part A - Improving Teacher Quality	173,312	184,741
Title II Part D - Enhancing Ed. through Technology	22,186	5,948
Title III - Limited English Proficient	39,624	21,901
Title V Part A - Innovative Programs	2,890	2,976
Safe and Drug Free Schools	2,380	2,538
Homeless Grant	500	
Goals 2000		3,100
Homeland security	4,240	
Eisenhower - Professional Development		3,026
	<u>814,066</u>	<u>820,552</u>
Total federal sources		
Incoming transfers:		
Intermediate sources:		
Special education	2,138,683	2,026,956
Building rent		8,400
Miscellaneous	20,575	864
	<u>2,159,258</u>	<u>2,036,220</u>
Total incoming transfers		
TOTAL REVENUE	<u><u>\$ 31,941,731</u></u>	<u><u>\$ 32,817,623</u></u>



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF EXPENDITURES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>EXPENDITURES:</b>		
Instruction:		
Basic programs:		
Elementary	\$ 5,658,362	\$ 5,958,952
Middle school	1,521,682	1,738,031
High school	3,460,506	3,640,502
Employee benefits	<u>3,821,997</u>	<u>4,098,783</u>
Total basic programs	<u>14,462,547</u>	<u>15,436,268</u>
Added needs:		
Special education	2,013,343	1,870,288
Compensatory education	627,181	631,301
Employee benefits	<u>1,189,666</u>	<u>1,071,980</u>
Total added needs	<u>3,830,190</u>	<u>3,573,569</u>
Total instruction	<u>18,292,737</u>	<u>19,009,837</u>
Supporting services:		
Pupil:		
Guidance	407,550	409,553
Health	57,727	157,120
Psychological	98,329	93,337
Speech pathology	319,807	310,000
Social work	167,025	181,341
Teacher consultant	269,811	280,903
Other	91,919	102,657
Employee benefits	<u>520,132</u>	<u>531,222</u>
Total pupil	<u>1,932,300</u>	<u>2,066,133</u>
Instructional staff:		
Improvement of education	288,601	394,728
Library	251,548	217,132
Supervision and direction	346,693	287,975
Employee benefits	<u>251,844</u>	<u>250,984</u>
Total instructional staff	<u>1,138,686</u>	<u>1,150,819</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF EXPENDITURES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>EXPENDITURES (Continued):</b>		
Supporting services (Continued):		
School administration:		
Office of the principal	\$ 1,563,574	\$ 1,783,892
Other	16,342	
Employee benefits	<u>561,557</u>	<u>617,743</u>
Total school administration	<u>2,141,473</u>	<u>2,401,635</u>
Total instructional support services	<u>5,212,459</u>	<u>5,618,587</u>
General administration:		
Board of education	156,439	167,120
Executive administration	266,581	211,757
Employee benefits	<u>104,587</u>	<u>77,718</u>
Total general administration	<u>527,607</u>	<u>456,595</u>
Business:		
Fiscal	348,573	333,901
Internal service	139,006	63,014
Other	16,180	75,531
Employee benefits	<u>152,968</u>	<u>147,225</u>
Total business	<u>656,727</u>	<u>619,671</u>
Operations and maintenance:		
Operating building services	3,082,064	3,040,294
Security	85,762	84,798
Employee benefits	<u>381,909</u>	<u>767,165</u>
Total operations and maintenance	<u>3,549,735</u>	<u>3,892,257</u>
Pupil transportation:		
Transportation	455,710	362,325
Employee benefits	<u>146,540</u>	<u>166,557</u>
Total pupil transportation	<u>602,250</u>	<u>528,882</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF EXPENDITURES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>EXPENDITURES (Concluded):</b>		
Supporting services (Concluded):		
Central:		
Information	\$ 95,930	\$ 145,110
Personnel	196,286	152,963
Data processing	627,224	723,860
Employee benefits	<u>201,945</u>	<u>197,038</u>
Total central	<u>1,121,385</u>	<u>1,218,971</u>
Total non-instructional supporting services	<u>6,457,704</u>	<u>6,716,376</u>
Total supporting services	<u>11,670,163</u>	<u>12,334,963</u>
Community services:		
Support		2,930
Recreation	<u>25,139</u>	<u>33,231</u>
Total community services	<u>25,139</u>	<u>36,161</u>
Outgoing transfers:		
IISD teacher substitutes	298,944	355,326
Miscellaneous	<u>326</u>	<u>5,000</u>
Total outgoing transfers	<u>299,270</u>	<u>360,326</u>
Payment on loans	<u>58,641</u>	<u>172,813</u>
TOTAL EXPENDITURES	<u><u>\$ 30,345,950</u></u>	<u><u>\$ 31,914,100</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
GENERAL FUND  
DETAIL OF OTHER FINANCING SOURCES AND USES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OTHER FINANCING SOURCES:</b>		
Transfer in from other funds:		
Food service	\$ 77,770	\$ 78,174
Sale of school property	<u>4,279</u>	<u>1,560</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u><u>\$ 82,049</u></u>	<u><u>\$ 79,734</u></u>
 <b>OTHER FINANCING USES:</b>		
Transfers out to other funds:		
High school athletics	<u>\$ 545,592</u>	<u>\$ 664,447</u>
<b>TOTAL OTHER FINANCING USES</b>	<u><u>\$ 545,592</u></u>	<u><u>\$ 664,447</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2004**

<b>ASSETS</b>	Food service	Athletics	Totals
Investments	\$ 179,290	\$ 2,524	\$ 181,814
Accounts receivable	743		743
Due from other governmental units	5,613		5,613
Inventories	13,619		13,619
Prepaid expenditures	347		347
	<u>\$ 199,612</u>	<u>\$ 2,524</u>	<u>\$ 202,136</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 125	\$	\$ 125
Accrued salaries and related items	6,312	2,524	8,836
Deferred cafeteria revenue	15,828		15,828
	<u>22,265</u>	<u>2,524</u>	<u>24,789</u>
Total liabilities			
Fund balances:			
Reserved for:			
Inventories	13,619		13,619
Prepaid expenditures	347		347
Unreserved and undesignated	163,381		163,381
	<u>177,347</u>	<u></u>	<u>177,347</u>
Total fund balances			
	<u>\$ 199,612</u>	<u>\$ 2,524</u>	<u>\$ 202,136</u>
Total liabilities and fund balances			

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2004**

	Food service	Athletics	Totals
<b>REVENUES:</b>			
Local:			
Food sales	\$ 540,299	\$	\$ 540,299
Athletic admissions		66,254	66,254
Activity and insurance fees		52,352	52,352
Other		10,500	10,500
State aid	45,764		45,764
Federal aid	283,096		283,096
	<u>869,159</u>	<u>129,106</u>	<u>998,265</u>
Total revenues			
<b>EXPENDITURES:</b>			
Cost of goods sold	363,307		363,307
Salaries and wages	253,409	410,475	663,884
Employee benefits	135,088	98,873	233,961
Contracted services	47,776	87,767	135,543
Materials and supplies	28,860	66,502	95,362
Capital outlay	12,303		12,303
Other	1,169	11,081	12,250
	<u>841,912</u>	<u>674,698</u>	<u>1,516,610</u>
Total expenditures			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>27,247</u>	<u>(545,592)</u>	<u>(518,345)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfer from other funds		545,592	545,592
Transfer to other funds	(77,770)		(77,770)
	<u>(77,770)</u>	<u>545,592</u>	<u>467,822</u>
Total other financing sources (uses)			
<b>NET CHANGE IN FUND BALANCES</b>	(50,523)		(50,523)
<b>FUND BALANCES, beginning of year</b>	<u>227,870</u>		<u>227,870</u>
<b>FUND BALANCES, end of year</b>	<u>\$ 177,347</u>	<u>\$</u>	<u>\$ 177,347</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NONMAJOR DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2004**

<b>ASSETS</b>	<u>1991 Debt</u>	<u>1996 Debt</u>	<u>Totals</u>
Investments	\$ 56,657	\$ 20,237	\$ 76,894
Due from other governmental units	1,691	577	2,268
Prepaid - other	<u>500</u>	<u>175</u>	<u>675</u>
	<u><u>\$ 58,848</u></u>	<u><u>\$ 20,989</u></u>	<u><u>\$ 79,837</u></u>

**LIABILITIES AND FUND BALANCES**

Liabilities:			
Due to other governmental units	\$ 3,970	\$ 1,443	\$ 5,413
Fund balances:			
Reserved for debt service	<u>54,878</u>	<u>19,546</u>	<u>74,424</u>
	<u><u>\$ 58,848</u></u>	<u><u>\$ 20,989</u></u>	<u><u>\$ 79,837</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NONMAJOR DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2004**

	1991 Debt	1996 Debt	Totals
<b>REVENUES:</b>			
Property taxes	\$ 1,865,047	\$ 644,783	\$ 2,509,830
Payment in lieu of taxes	7,831	2,711	10,542
Penalties and interest on delinquent taxes	530	73	603
M.S.U. reimbursement	105,448		105,448
Interest on investments	13,759	1,791	15,550
	<hr/>	<hr/>	<hr/>
Total revenues	1,992,615	649,358	2,641,973
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Retirement of bonded debt	1,025,072	10,000	1,035,072
Interest on bonded debt	1,344,928	789,435	2,134,363
Paying agent fees	1,002	349	1,351
	<hr/>	<hr/>	<hr/>
Total expenditures	2,371,002	799,784	3,170,786
	<hr/>	<hr/>	<hr/>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(378,387)	(150,426)	(528,813)
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES:</b>			
Proceeds from school bond loan fund	324,021	153,976	477,997
	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES</b>	(54,366)	3,550	(50,816)
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, beginning of year</b>	109,244	15,996	125,240
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, end of year</b>	\$ 54,878	\$ 19,546	\$ 74,424
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NONMAJOR CAPITAL PROJECTS FUND - SINKING FUND  
BALANCE SHEET  
JUNE 30, 2004**

**ASSETS**

Investments	\$ 2,629,222
Receivables:	
Accrued interest	2,633
Due from other governmental units	<u>1,006</u>
	<u><u>\$ 2,632,861</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Accounts payable	\$ 287,801
Due to other governmental units	<u>2,404</u>
Total liabilities	290,205
Fund balance:	
Reserved for:	
Sinking fund	<u>2,342,656</u>
	<u><u>\$ 2,632,861</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NONMAJOR CAPITAL PROJECTS FUND - SINKING FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2004**

**REVENUES:**

Property taxes	\$ 1,102,777
Payment in lieu of taxes	4,669
Penalties and interest on delinquent taxes	283
Interest on investments	27,336
	<hr/>
Total revenues	1,135,065
	<hr/>

**EXPENDITURES:**

Capital outlay:	
Donley Elementary	62,044
Glencairn Elementary	108,302
Marble Elementary	171,688
Pinecrest Elementary	113,823
Red Cedar Elementary	66,327
Whitehills Elementary	65,292
MacDonald Middle School	38,631
East Lansing High School	105,460
Administrative	107,195
Service center	269
	<hr/>
Total expenditures	839,031
	<hr/>

<b>NET CHANGE IN FUND BALANCE</b>	296,034
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<b>FUND BALANCE, beginning of year</b>	2,046,622
	<hr/>

<b>FUND BALANCE, end of year</b>	\$ 2,342,656
	<hr/> <hr/>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**2000 CAPITAL PROJECTS FUND**  
**DETAIL OF EXPENDITURES**  
**YEAR ENDED JUNE 30, 2004**

MacDonald Middle School:

Furnishings	\$ 581,209
Technology	393,340
Remodeling	4,202,979
Site development	108,970
Architectural fees and other costs	470,109
	<hr/>
Total MacDonald Middle School	5,756,607
	<hr/>

East Lansing High School:

Furnishings	398,154
Technology	432,702
Remodeling	18,782,913
Site development	497,282
Architectural fees and other costs	1,346,108
	<hr/>
Total East Lansing High School	21,457,159
	<hr/>

Administrative:

Furnishings	2,332
Technology	7,776
Remodeling	185,400
Architectural fees and other costs	5,585
	<hr/>
Total administrative	201,093
	<hr/>

Service center:

Technology	3,270
Architectural fees and other costs	2,000
	<hr/>
Total service center	5,270
	<hr/>

Pool:

Remodeling	2,783,593
Architectural fees and other costs	405,867
	<hr/>
Total pool	3,189,460
	<hr/>
Total expenditures	\$ 30,609,589
	<hr/> <hr/>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
FIDUCIARY FUND - AGENCY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2004**

	High School	MacDonald	Elementary and other	Totals
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Investments	<u>\$ 250,361</u>	<u>\$ 34,790</u>	<u>\$ 94,050</u>	<u>\$ 379,201</u>
<b>LIABILITIES</b>				
Due to student, school, and other groups	<u>\$ 250,361</u>	<u>\$ 34,790</u>	<u>\$ 94,050</u>	<u>\$ 379,201</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
FIDUCIARY FUND - AGENCY FUNDS  
STATEMENT OF CASH RECIEPTS AND DISBURSEMENTS BY SCHOOL  
YEAR ENDED JUNE 30, 2004**

	Balance 7/1/03	Additions	Deductions	Balance 6/30/2004
East Lansing High School	\$ 193,107	\$ 439,973	\$ 382,717	\$ 250,363
MacDonald Middle School	30,286	95,793	91,289	34,790
Donley Elementary School	7,552	4,379	4,991	6,940
Glencairn Elementary School	4,665	5,994	8,274	2,385
Marble Elementary School	18,509	28,966	31,110	16,365
Pinecrest Elementary School	9,989	12,727	12,736	9,980
Red Cedar Elementary School	5,707	11,747	8,421	9,033
Spartan Village Elementary School	304		304	
Whitehills Elementary School	4,715	43,850	42,422	6,143
Other	41,796	35,028	33,622	43,202
	<u>\$ 316,630</u>	<u>\$ 678,457</u>	<u>\$ 615,886</u>	<u>\$ 379,201</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
COMBINED BONDED DEBT SERVICE REQUIREMENTS  
YEAR ENDED JUNE 30, 2004**

Year ending June 30,	1991 Debt	1996 Debt	2000 Debt	Combined
2005	\$ 2,315,000	\$ 828,985	\$ 4,527,056	\$ 7,671,041
2006	2,255,000	942,145	4,499,732	7,696,877
2007	2,180,000	1,069,860	4,445,682	7,695,542
2008	2,095,000	1,206,085	4,416,632	7,717,717
2009		2,799,745	4,910,832	7,710,577
2010		2,880,967	4,828,582	7,709,549
2011		2,970,608	4,744,582	7,715,190
2012		3,057,245	4,658,832	7,716,077
2013		3,151,265	4,571,332	7,722,597
2014		1,996,383	4,870,706	6,867,089
2015			5,197,082	5,197,082
2016			5,097,582	5,097,582
2017			5,005,806	5,005,806
2018			4,910,006	4,910,006
2019			4,811,506	4,811,506
2020			4,708,906	4,708,906
2021			4,602,156	4,602,156
2022			4,492,656	4,492,656
2023			4,376,718	4,376,718
2024			4,232,968	4,232,968
2025			4,087,812	4,087,812
2026			3,916,250	3,916,250
2027			3,744,688	3,744,688
2028			3,623,126	3,623,126
2029			3,448,750	3,448,750
2030			3,274,376	3,274,376
	8,845,000	20,903,288	116,004,356	145,752,644
Unrecorded appreciation	1,344,915			1,344,915
	<u>\$ 7,500,085</u>	<u>\$ 20,903,288</u>	<u>\$ 116,004,356</u>	<u>\$ 144,407,729</u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS  
1991 DEBT  
YEAR ENDED JUNE 30, 2004**

Capital Appreciation (Serial) Bonds issued for \$7,139,784 (Face amount at maturity \$18,060,000) on August 22, 1991, the approximate yield of the bond's appreciation ranges from 6.85% to 7.00%

<u>Date</u>	<u>Appreciation</u>	<u>Payments</u>	<u>Appreciated value</u>
05/01/04	\$	\$	\$ 7,500,085
11/01/04	259,452		7,759,537
05/01/05	268,428	2,315,000	5,712,965
11/01/05	198,417		5,911,382
05/01/06	205,326	2,255,000	3,861,708
11/01/06	134,656		3,966,364
05/01/07	139,344	2,180,000	1,955,708
11/01/07	68,448		2,024,156
05/01/08	<u>70,844</u>	2,095,000	
Unrealized appreciation	<u>\$ 1,344,915</u>		

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS  
1996 DEBT  
YEAR ENDED JUNE 30, 2004**

Bond issued to provide funds to advance refund a portion of the School District's outstanding 1988 School Building and Site Bonds and 1991 School Building and Site Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 40,000	\$ 394,492	\$ 394,493	2005	\$ 828,985
155,000	393,572	393,573	2006	942,145
290,000	389,930	389,930	2007	1,069,860
440,000	383,042	383,043	2008	1,206,085
2,055,000	372,372	372,373	2009	2,799,745
2,240,000	320,483	320,484	2010	2,880,967
2,445,000	262,804	262,804	2011	2,970,608
2,660,000	198,622	198,623	2012	3,057,245
2,895,000	128,132	128,133	2013	3,151,265
1,895,000	50,691	50,692	2014	1,996,383
<u>\$ 15,115,000</u>	<u>\$ 2,894,140</u>	<u>\$ 2,894,148</u>		<u>\$ 20,903,288</u>

The above bonds have interest rates from 4.60% to 5.35%.

Total amount of original issue was \$18,630,000.



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS  
2000 DEBT**

**YEAR ENDED JUNE 30, 2004**

Bond issued to provide funds for erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping and re-equipping East Lansing High School and developing and improving outdoor physical education/athletic facilities; acquiring and installing educational technology; partially remodeling, furnishing and re-furnishing, equipping and re-equipping existing buildings, in part, for relocating the alternative high school program and to relocate the central office and support services; acquiring, developing and improving sites; erecting, furnishing and equipping additions to, and partially remodeling, furnishing and re-furnishing, equipping MacDonald Middle School, acquiring, installing and equipping technology therefore; developing and improving its outdoor physical education/athletic facilities and the site; erecting, furnishing and equipping a swimming pool addition to the East Lansing High School and developing and improving the site; and to pay the costs of issuing the Bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 1,150,000	\$ 1,688,528	\$ 1,688,528	2005	\$ 4,527,056
1,175,000	1,662,366	1,662,366	2006	4,499,732
1,175,000	1,635,341	1,635,341	2007	4,445,682
1,200,000	1,608,316	1,608,316	2008	4,416,632
1,750,000	1,580,416	1,580,416	2009	4,910,832
1,750,000	1,539,291	1,539,291	2010	4,828,582
1,750,000	1,497,291	1,497,291	2011	4,744,582
1,750,000	1,454,416	1,454,416	2012	4,658,832
1,750,000	1,410,666	1,410,666	2013	4,571,332
2,150,000	1,360,353	1,360,353	2014	4,870,706
2,600,000	1,298,541	1,298,541	2015	5,197,082
2,650,000	1,223,791	1,223,791	2016	5,097,582
2,700,000	1,152,903	1,152,903	2017	5,005,806
2,750,000	1,080,003	1,080,003	2018	4,910,006
2,800,000	1,005,753	1,005,753	2019	4,811,506
2,850,000	929,453	929,453	2020	4,708,906
2,900,000	851,078	851,078	2021	4,602,156
2,950,000	771,328	771,328	2022	4,492,656
3,000,000	688,359	688,359	2023	4,376,718
3,025,000	603,984	603,984	2024	4,232,968
3,050,000	518,906	518,906	2025	4,087,812
3,050,000	433,125	433,125	2026	3,916,250
3,050,000	347,344	347,344	2027	3,744,688
3,100,000	261,563	261,563	2028	3,623,126
3,100,000	174,375	174,375	2029	3,448,750
3,100,000	87,188	87,188	2030	3,274,376
<u>\$ 62,275,000</u>	<u>\$ 26,864,678</u>	<u>\$ 26,864,678</u>		<u>\$ 116,004,356</u>

The above bonds have interest rates from 4.55% to 5.75%.

Total amount of original issue was \$66,080,000.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**INVESTMENTS**  
**JUNE 30, 2004**

	<u>Interest rate</u>	<u>Amount</u>
<b>General fund:</b>		
Fifth Third Bank - Sweep		
Interest bearing checking	0.95%	\$ 413,230
Fifth Third Bank - MaxSaver		
Money Market Fund	0.70%	341,644
Comerica Bank - Sweep		
Interest bearing checking	1.00%	2,043,095
Michigan Class Pool	0.91%	104,639
		<u>2,902,608</u>
<b>Special revenue funds:</b>		
Fifth Third Bank - Sweep		
Interest bearing checking	0.95%	127,988
Comerica Bank - Sweep		
Interest bearing checking	1.00%	53,826
		<u>181,814</u>
<b>Debt service funds:</b>		
Fifth Third Bank - Sweep		
Interest bearing checking	0.95%	14
Comerica Bank - Sweep		
Money Market Fund	1.09%	185,963
		<u>185,977</u>
<b>Capital projects fund:</b>		
Fifth Third Bank - Sweep		
Interest bearing checking	0.95%	899
Fifth Third Bank - MaxSaver		
Money Market Fund	0.85%	728,897
Comerica Bank - Sweep		
Interest bearing checking	1.00%	220,868
Comerica Bank - Certificate of Deposit	1.20%	1,755,000
Salomon Reinvestment Co - US Treasury Bonds	5.92%	26,251,231
Michigan Class Pool	0.91%	97,622
		<u>29,054,517</u>
<b>Agency funds:</b>		
Fifth Third Bank - Sweep		
Interest bearing checking	0.95%	310,350
Comerica Bank - Sweep		
Interest bearing checking	1.00%	68,851
		<u>379,201</u>
Total investments		<u><u>\$ 32,704,117</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2004**

**C O N T E N T S**

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
School District of the City of East Lansing  
East Lansing, Michigan

August 17, 2004

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the School District of the City of East Lansing as of and for the year ended June 30, 2004, which collectively comprise School District of the City of East Lansing's basic financial statements and issued our report thereon dated August 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education  
School District of the City of East Lansing

August 17, 2004

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mamay, Costenisan & Ellis, P.C.*

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
School District of the City of East Lansing  
East Lansing, Michigan

August 17, 2004

Compliance

We have audited the compliance of the School District of the City of East Lansing with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District of the City of East Lansing's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District of the City of East Lansing's management. Our responsibility is to express an opinion on the School District of the City of East Lansing's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of East Lansing's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District of the City of East Lansing's compliance with those requirements.

In our opinion, the School District of the City of East Lansing complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

To the Board of Education  
School District of the City of East Lansing

August 17, 2004

### Internal Control Over Compliance

The management of the School District of the City of East Lansing is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the School District of the City of East Lansing as of and for the year ended June 30, 2004, and have issued our report thereon dated August 17, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mamay, Costeniser & Ellis, P.C.*

Certified Public Accountants



**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2003	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2004
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Lunch Breakfast	10.553	031970 041970	\$ 27,381 27,728	\$ 	\$ 25,766	\$ 1,615 27,728	\$ 1,615 27,728	\$
			55,109		25,766	29,343	29,343	
National School Lunch	10.555	031950 031960 041950 041960	39,815 157,813 37,645 160,148		35,888 144,874	3,927 12,939 37,645 160,148	3,927 12,939 37,645 160,148	
			395,421		180,762	214,659	214,659	
Total Child Nutrition Cluster			450,530		206,528	244,002	244,002	
Food Distribution:								
Entitlement Commodities	10.550		34,661			34,661	34,661	
Bonus Commodities			4,433			4,433	4,433	
			39,094			39,094	39,094	
Total U.S. Department of Agriculture			489,624		206,528	283,096	283,096	
<u>U.S. Department of Education:</u>								
Passed through the Michigan Department of Education :								
Title I - Improving Basic Programs	84.010	031530-0203 031530-0304 041530-0304	490,460 82,483 480,136	56,644	426,652	120,452 57,098 294,365	63,808 82,483 395,255	25,385 100,890
			1,053,079	56,644	426,652	471,915	541,546	126,275

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2003	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2004
<u>U.S. Department of Education (Continued):</u>								
Passed through the Michigan Department of Education (Concluded):								
Title V Part A - Innovative Programs	84.298	040250-0304	\$ 2,890	\$	\$	\$ 1,958	\$ 2,890	\$ 932
Title II Part D - Enhancing Ed. Through Technology	84.318	034290-0203	9,276	2,620	5,948	5,948	3,328	
		034290-0304	7,255			6,808	7,255	447
		044290-0304	11,603			8,391	11,603	3,212
			28,134	2,620	5,948	21,147	22,186	3,659
Title III - Limited English Proficient	84.365	030580-0203	28,700	561	21,901	7,360	6,799	
		030580-0304	12,084			8,366	12,084	3,718
		040580-0304	20,740			31,623	20,740	(10,883)
			61,524	561	21,901	47,349	39,623	(7,165)
Title II Part A - Improving Teacher Quality	84.367	030520-0203	184,741	2,154	184,741	2,154		
		030520-0304	3,131				3,131	3,131
		040520-0304	186,248			106,270	170,181	63,911
			374,120	2,154	184,741	108,424	173,312	67,042
Total passed through Michigan Department of Education			1,519,747	61,979	639,242	650,793	779,557	190,743

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2003	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2004
<u>U.S Department of Education (Continued):</u>								
Passed through Ingham Intermediate School District:								
Special Education Cluster:								
IDEA Transition Minigrant	84.027A	030490-0203	\$ 2,000	\$ 1,490	\$ 1,490	\$ 1,490	\$	\$
IDEA Pre-Primary Impaired	84.173A	030460-0203	23,399	13,366	23,399	13,366		
		040460-0304	27,388			10,278	27,388	17,110
			50,787	13,366	23,399	23,644	27,388	17,110
Total Special Education Cluster			52,787	14,856	24,889	25,134	27,388	17,110
Passed through Pottersville Public Schools								
Homeless	84.196A	04320-0304	500				500	500
Passed through Eaton Intermediate School District:								
Safe and Drug Free Schools	84.186A	032860-0203	2,538	2,538	2,538	2,538		
		032860-0304	2,296			2,296	2,296	
		042860-0304	2,789			85	85	
			7,623	2,538	2,538	4,919	2,381	
Total U.S. Department of Education			1,580,657	79,373	666,669	680,846	809,826	208,353
<u>U.S Office of Domestic Preparedness:</u>								
Passed through Department of State Police								
State Homeland Security Grant Part II	97.004		17,600				4,240	4,240
Total U.S. Office of Domestic Preparedness			17,600				4,240	4,240
Total Expenditures of Federal Awards			\$ 2,087,881	\$ 79,373	\$ 873,197	\$ 963,942	\$ 1,097,162	\$ 212,593

The accompanying notes are an integral part of this schedule.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of the School District of the City of East Lansing and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title I, CFDA (#84.010) was audited as the major program, representing 49% of expenditures. The District is a low risk auditee.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Reconciliation of federal revenues reported on financial statements with expenditures per schedule of expenditures of federal awards:

Federal revenue, per financial statements:

General fund	\$ 814,066
Other nonmajor governmental funds	<u>283,096</u>
Subtotal	<u><u>\$ 1,097,162</u></u>

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued: Unqualified

● Material weakness(es) identified: \_\_\_\_\_ Yes   X   No

● Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

● Material weakness(es) identified: \_\_\_\_\_ Yes   X   No

● Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

---

No matters were reported for the year ended June 30, 2004.

**Section III - Federal Award Findings and Questioned Costs**

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No findings or questioned costs were noted for the year ended June 30, 2004 audit.

**SCHOOL DISTRICT OF THE CITY OF EAST LANSING  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2004**

There were no findings disclosed with the June 30, 2003 single audit.



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Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 17, 2004

To the Board of Education  
School District of the City of East Lansing  
East Lansing, Michigan

In planning and performing our audit of the financial statements of the School District of the City of East Lansing for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 17, 2004, on the financial statements of the School District of the City of East Lansing.

### **Repeat Comments**

#### **Improve Segregation of Accounting Department Duties**

Although the size of the District's office staff limits the extent of separation of duties, we believe certain steps could be taken to improve controls. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of separation of duties is cash. Currently, one individual receives checks unopened and makes a prelist of checks received. This person also compares the deposit tickets with the prelist.

### Progress

Gail, Assistant to the Director of Finance, receives checks, makes a prelist and reconciles prelist to the bank deposit ticket. Someone independent of the cash receipts process should reconcile the prelist to the bank validated deposit ticket.

The manual signature stamp should be kept with Gail in a locked drawer, since Gail does not have access to post to the general ledger.

### **Current Year Comments**

#### Improve Segregation of Accounting Department Duties

An independent person with an accounting background should review the reconciliation's after they are prepared. This step would not require the addition of any new employees or add significant time to the manager's/executive's time.

#### General Journal Entries

Journal entries, which are initiated at the management level, should be approved as part of the normal internal control process.

#### Athletic receipts

The Athletic Director records cash receipts for a sporting event on a cash worksheet and forwards the cash to the accounting department for deposit.

The Athletic Director should include his cash worksheet along with the cash for deposit forwarded to the accounting department so the cash worksheet can be reconciled with the bank validated deposit ticket by the accounting department.



Disaster Recovery Plan

With the increased reliance on technology, significant amounts of valuable data are stored electronically. In time of emergency, a formalized program including a secondary off-site system that may be utilized, and guidelines on lines of responsibility and courses of action is invaluable in providing for continuity of information flow. We recommend the District consider developing such a plan. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following:

- Provide a list of the name, phone number, and order in which to contact personnel from the District in the event of an emergency.
- Identify critical computer hardware needs should the system need to be replaced or relocated. These needs should address specifications for replacement of the file server, communication considerations, workstations, tape backup unit, electrical considerations, possible alternative location, etc.
- Location of, and access to, offsite storage.
- A listing of all data files that would have to be obtained from the offsite storage location.
- Identify primary vendors and alternate suppliers from which to obtain necessary equipment. A tape backup unit, which is compatible with your current system, may be one of the most critical components to locate.
- Include a detailed list of recovery and restore procedures in the plan.

- Consider the possibility that for a short time only minimal computer service and support will be available. Identify those applications that are most critical and the order in which they should be restored.
- Make sure the plan is available at offsite locations and that more than one person is capable of performing the steps identified in the plan.

Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Risk Disclosures”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The District should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Financial Information Database (FID) Filing

The Center for Educational Performance and Information (CEPI) is preparing for the implementation of a new upload application/database for financial reporting for school districts in Michigan. This new application/database is called the Financial Information Database (FID). This submission is due November 15, 2004. The EDN/Form B submission process has been eliminated and is no longer available. We strongly recommend your filing be done earlier this year to ensure all changes have been accepted. The penalty for late filing is withholding of your state aid by the state of Michigan.

To the Board of Education  
School District of the City of East Lansing  
East Lansing, Michigan

5

August 17, 2004

Changes in Sinking Fund Approval

The Michigan Department of Treasury will no longer be pre-approving sinking fund expenditures. Expenditures which are not clearly allowed should be discussed with your legal counsel to determine compliance with state law.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of School District of the City of East Lansing, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costenaro & Ellis, P.C.*



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August 17, 2004

To the Finance Committee  
School District of the City of East Lansing  
East Lansing, Michigan

We have audited the financial statements of the School District of the City of East Lansing for the year ended June 30, 2004, and have issued our report thereon dated August 17, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 2, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the School District of the City of East Lansing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the School District of the City of East Lansing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District of the City of East Lansing's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the School District of the City of East Lansing's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the School District of the City of East Lansing's compliance with those requirements.

To the Finance Committee  
School District of the City of East Lansing  
East Lansing, Michigan

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District of the City of East Lansing are described in Note 1 to the financial statements. We noted no transactions entered into by the School District of the City of East Lansing during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimated liability for compensated absences and estimated fixed asset lives for depreciation.

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payout; the balance reported was \$4,399,163. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain amounts included as capital assets have been estimated. Certain allocations on the statement of activities allocating operating grants between instruction and support services have been used in preparing this statement.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the School District of the City of East Lansing, either individually or in the aggregate, indicate matters that could have a significant effect on the School District of the City of East Lansing's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Finance Committee  
School District of the City of East Lansing  
East Lansing, Michigan

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District of the City of East Lansing’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service and would be happy to discuss the foregoing items at your convenience.

Very truly yours,

*Mamie Costeniser & Ellis, P.C.*